LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6866 **NOTE PREPARED:** Feb 23, 2009
BILL NUMBER: HB 1429 **BILL AMENDED:** Feb 23, 2009

SUBJECT: Tax credit for parent care expenses.

FIRST AUTHOR: Rep. Bartlett **BILL STATUS:** 2nd Reading - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State
DEDICATED
FEDERAL

Summary of Legislation: (Amended) This bill provides an income tax credit against a resident individual's Indiana Adjusted Gross Income Tax for certain parent care expenses. It specifies that the credit is 100% of the parent care expenses, the taxpayer's income tax liability, or $5,000, whichever is least.

Effective Date: July 1, 2009.

Explanation of State Expenditures: (Revised) *Department of State Revenue (DOR)*: The DOR will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the new tax credit. The Department's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: *Summary* - This bill provides an Adjusted Gross Income (AGI) tax credit for parent care expenses to individual taxpayers and could potentially decrease revenue to the General Fund by $76 M to $202 M in FY 2010. The tax credit is equal to the lesser of the taxpayer's parent care expenses for the taxable year, the taxpayer's AGI liability for the taxable year, or $5,000.

Background Information - The estimate provided above is based upon federal income tax data that demonstrates an increase of approximately 9.6% each year in the number of Indiana residents claiming exemptions for parents. This growth rate provides an estimate of 40,400 taxpayers that would claim exemptions for parents for tax year 2009. If 75% of these taxpayers have parents that reside with them for more than half of the year and claim credits of $2,500 each, then the revenue loss would be approximately $76 M in FY 2010. If all of the taxpayers claim credits of $5,000 each, the revenue loss could be $202 M in FY 2010. Revenue loss could be less to the extent that taxpayers claim less than $5,000, and to the extent that those claiming exemptions for parents do not have parents residing with them for more than half of the year.

For the federal exemption, parents do not have to live with children for children to claim them as exemptions, but they must meet other criteria such as providing more than half of the parent's support for the year and have annual income of less than $3,500. In contrast, recipients of this new tax credit would only be eligible if their parents reside with them for more than half of the taxable year.

The bill defines "parent care expenses" as household services, housing modifications, and the care of a father or mother who lives with the taxpayer for more than 50% of the taxable year to enable the parent to avoid long-term care services at a facility. If the taxpayer is an Indiana resident for less than a year, the amount of the credit will be reduced to the ratio of the taxpayer's total income to the taxpayer's income attributable to Indiana. The tax credit is nonrefundable and may not be carried back or carried forward. Revenue from the AGI Tax on individuals is deposited in the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: DOR.

Local Agencies Affected:

Information Sources: OFMA Income Tax databases.

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